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RUEHAC/AMEMBASSY ASUNCION 5361
RUEHMN/AMEMBASSY MONTEVIDEO 6180
RUEHSG/AMEMBASSY SANTIAGO 5442
RUEHPE/AMEMBASSY LIMA 2944
RUEHCV/AMEMBASSY CARACAS 3195
RUEHQT/AMEMBASSY QUITO 1783
RUEHLP/AMEMBASSY LA PAZ 4502
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SUBJECT: VARIG'S DOWNWARD SPIRAL: WE'LL PAY YOU LATER

REF: BRASILIA 688

1. (U) The following cable has business sensitive information, please handle accordingly.

2. (SBU) VARIG's downward spiral continues with a recent spate of cancellations that have left passengers stranded and caused outcries from local and international creditors clamoring for GoB action. The company is currently USD 3.3 billion in debt (with obligations growing), two months behind on payments to creditors for leased aircraft, 7 months behind on payments to the national airport operator INFRAERO, and will be required by Petrobras subsidiary BR Distribuidora to prepay for refueling. National Civil Aviation Agency (ANAC) representatives expressed concerns that foreign creditors will paralyze VARIG's cash-generating foreign operations with plane seizures and the loss of landing rights at foreign airports. VARIG recently paid its most vocal foreign creditor, International Lease Finance Corporation (ILFC), but did not pay the other 28, fostering ill will among those left holding the bag. VARIG has a scheduled date in U.S. bankruptcy court April 20, which will more than likely decide the company's operating future. End Summary.

3. (SBU) Brazil's airport operator INFRAERO stated that it can/will no longer wait for VARIG to pay seven months of owed airport fees, equivalent to USD 492 million. This is in the wake of VARIG's calls to hold off paying for another three months and despite INFRAERO's meeting with Lula Chief of Staff Dilma Rousseff. INFRAERO is itself being pressured by the Public Ministry and the Public Accounts Tribunal (GAO-equivalent organ) to collect these fees from VARIG or face prosecution for favoritism. Similarly, Petrobras subsidiary BR Distribuidora, will require VARIG to prepay for fuel, despite VARIG's request to delay payment for two months. Airline pension fund AERUS, VARIG's largest single creditor at USD 943 million, last week opposed a deal proposed by MatlinPatterson's local subsidiary, VOLO, to purchase the airline's operations for USD 350 million. The new company contemplated under the VOLO proposal would not assume any of VARIG's debt, including the post bankruptcy protection back payments of USD 18 million to AERUS. Acceptance of the MatlinPatterson offer would have resulted in a 33 percent reduction in aircraft and a 56 per cent reduction in staff in the newly restructured entity. The president of AERUS has since been fired, which he publicly blamed on his refusal to back the deal.

¶4. (U) In the meantime, VARIG's leaders are banking on its status as an "institution" to save it and will thus take another proposal to Brazil's Economic and Social Development Bank (BNDES) this week to ask for a USD 200 million bridge loan until a suitable solution can be found. Political leaders, including the new Finance Minister Guido Mantega, who needs to convince financial market participants of his fiscal-restraint credential, stated that the GoB does not have the money to finance a bailout of the airline and is not in the business of using public funds to save private enterprises.

¶5. (SBU) In a lunch meeting with Emboffs (reftel), ANAC Directors Denise Abreu and Leur Lomanto openly worried that their biggest problem with VARIG is the takeover of Brazil's international routes of which VARIG has a 69.6 percent share. While publicly denying that it has come up with a contingency plan for the eventuality of a VARIG stoppage of service, ANAC representatives told Emboffs that the carrier's domestic flights could be absorbed easily. They pointedly questioned emboffs whether creditors like International Lease Finance Corporation (ILFC) would hold true to threats to seize VARIG planes. (Of VARIG's 29 leasehold creditors, 19 are based in the U.S.) A Boeing contact told econoff that ILFC, the most vocal and most likely to seize aircraft (per their past actions) had been paid the week of April 7. However, this has left the other creditors, some of whom have Letters of Intent from other carriers for the aircraft currently under lease with VARIG, disgruntled. VARIG's post bankruptcy petition protections against plane seizures etc. were predicated on its staying current on their financial obligations. The Boeing rep noted that now more than ever, it makes more financial sense for the leasehold creditors to move forward with plans to seize these planes for non-payment and lease them to other airlines.

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